

Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 SSO-00 NSCE-00 NSC-05 SP-02 L-01

PRS-01 INR-05 CIAE-00 NSAE-00 FRB-01 OMB-01 INRE-00

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P R 021510Z DEC 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 1545

TREAS DEPT WASHDC IMMEDIATE

INFO USMISSION EC BRUSSELS

C O N F I D E N T I A L ROME 19659

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TREASURY FOR WIDMAN; PASS FRB

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: TREASURY MINISTRY OFFICIAL COMMENTS ON STABILIZATION
PROGRAM

1. SUMMARY. DURING TALK WITH TREASATT OFFICERS DECEMBER 1, DIRECTOR GENERAL PALUMBO OF TREASURY MINISTRY MADE FOLLOWING POINTS: (A) EC AND IMF LOAN NEGOTIATORS SEEM TO BE COMPETING TO SEE WHICH CAN BE TOUGHEST ON ITALY; (B) GOI DOES NOT ACCEPT ZERO GROWTH SCENARIO FOR 1977 AND HOPES THAT FOREIGN FINANCING WILL PERMIT INVESTMENT SUFFICIENT TO PERMIT MODEST POSITIVE GROWTH; (C) INCREASES IN PUBLIC INVESTMENT EXPENDITURES IN 1977 ARISING FROM 1975 ANTI-RECESSION PACKAGE AND FROM PROPOSALS NOW BEING DISCUSSED WILL BE VERY MODEST: AND (D) EVALUATION OF PROSPECTS FOR ACCEPTABLE AGREEMENT BETWEEN BUSINESS AND LABOR ON LABOR COSTS SHOULD BE POSSIBLE AFTER DECEMBER 2 MEETING OF BUSINESS AND LABOR AND DECEMBER 4 MEETING BETWEEN GOVERNMENT AND LABOR. END SUMMARY.

2. EC AND IMF LOAN NEGOTIATIONS. PALUMBO RUEFULLY COMMENTED THAT
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NEGOTIATIONS THIS WEEK WITH MISSION FROM EC COMMISSION GIVE THE

IMPRESSION THAT EC AND IMF STAFFS ARE IN COMPETITION TO SHOW WHO CAN BE TOUGHEST ON ITALY. PALUMBO FEARED THAT ANY AGREEMENT INITIALLY MADE WITH ONE PARTY WOULD CAUSE THE OTHER, SUBSEQUENTLY, TO UP THE ANTE.

3. GROWTH AND FOREIGN FINANCING. PALUMBO THOUGHT THAT GOI SHOULD NOT HAVE TO ACCEPT ZERO GROWTH IN 1977 BECAUSE OF FOREIGN CREDITORS' INSISTENCE ON CURRENT ACCOUNT SURPLUS. HE THOUGHT THAT FOREIGN CREDITORS SHOULD EXTEND AT LEAST ENOUGH FINANCING TO PERMIT SOME RECOVERY OF INVESTMENT TO PERMIT SOME POSITIVE GROWTH, HOWEVER MODEST. HE WAS NOT PRESSED BY ARGUMENT THAT STRONG RECOVERY IN 1976 MEANT THAT ZERO GROWTH IN 1977 WOULD NOT BE ALL THAT BAD IN TERMS OF ABSOLUTE LEVELS OF ECONOMIC ACTIVITY. PALUMBO MENTIONED FINANCING OF NUCLEAR ENERGY PROGRAM AS ONE WAY IN WHICH FOREIGN FINANCING COULD BE DIRECTLY CHANNELLED INTO INVESTMENT. HE WAS INTERESTED IN POSSIBILITY OF U.S. PRIVATE CAPITAL PARTICIPATION IN FINANCING ITALY'S NUCLEAR PROGRAM, WITH COOPERATION OF EXIMBANK. FINALLY, HE COMMENTED THAT REMOVAL OF BALANCE OF PAYMENTS "CRUTCHES" (E.G., 7 PERCENT EXCHANGE TAX AND PRIOR DEPOSIT) WOULD BE FACILITATED BY RECEIPT OF FOREIGN CREDIT (APPARENTLY SHORT-TERM) IN A FORM WHICH WAS READILY AVAILABLE WHEN NEEDED.

4. FISCAL PACKAGE. WHEN EMBOFF SUGGESTED THAT 1977 CASH BUDGET EXPENDITURES COULD BE INFLATED BY PROPOSED NEW PROGRAMS OR BY NEED TO MEET ACCUMULATED FINANCIAL PROBLEMS LIKE LOCAL GOVERNMENT DEBT CONSOLIDATION, PALUMBO REPLIED THAT, UNFORTUNATELY, INCREASE IN PUBLIC INVESTMENT EXPENDITURES WAS NOT LIKELY TO BE THAT LARGE. HE ESTIMATED THAT BOTH THE 1975 ANTI-RECESSION PACKAGE AND THE VARIOUS PROGRAMS CURRENTLY BEING DISCUSSED WOULD, TOGETHER, ONLY RESULT IN ABOUT 600 BILLION LIRE IN ACTUAL CASH OUTLAYS FOR INVESTMENT IN 1977. HE NOTED THAT 1,200 BILLION LIRE OF CURRENT "PACKAGE" WAS EARMARKED FOR INVESTMENT (YOUTH EMPLOYMENT, HOUSING AND AGRICULTURE). HE DID NOT REACT TO SUGGESTION THAT, UNLESS TREASURY CASH DEFICIT IN 1977 IS SUBSTANTIALLY REDUCED BELOW ORIGINAL ESTIMATE OF 13,600 BILLION LIRE, DEFICIT COULD LEAD TO UNACCEPTABLY LARGE MONETARY EXPANSION.

5. LABOR COSTS. PALUMBO INDICATED THAT, IN ADDITION TO PUBLIC TALKS AMONG LABOR, BUSINESS AND GOVERNMENT ON LABOR COST QUESTION, CONFIDENTIAL

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THERE WERE OTHER CONTACTS BEING MADE ON MORE PRIVATE BASIS. MOST HEARTENING WAS HIS ASSERTION THAT REASON FOR HIS OPTIMISM WAS THAT THERE WAS A GREAT DEAL MORE LISTENING GOING ON NOW THAN THERE HAD BEEN BEFORE, THAT THE CONSTANT HAMMERING AWAY AT THE PROBLEM OF LABOR COSTS WAS GETTING THROUGH TO THE ONES THAT COUNT. PALUMBO WAS HOPEFUL THAT, FOLLOWING DECEMBER 2 MEETING BETWEEN BUSINESS AND LABOR AND DECEMBER 4 MEETING BETWEEN GOVERNMENT AND LABOR, IT WOULD BE POSSIBLE TO ASSESS MORE ACCURATELY PROSPECTS FOR

MAKING PROGRESS IN THIS DIFFICULT AREA. TIMING OF THESE MEETINGS SHOULD PERMIT PRIME MINISTER ANDREOTTI TO PRESENT STATUS REPORT ON GOI MINISTER ANDREOTTI TO PRESENT STATUS REPORT ON GOI EFFORTS IN THIS AREA TO U.S. INTERLOCUTORS DURING HIS VISIT TO THE U.S. ON QUESTION OF PARTIAL FISCALIZATION OF SOCIAL COSTS, PALUMBO SUGGESTED THAT SOMETHING WOULD LIKELY BE DONE TO REDUCE BURDEN ON BUSINESS SECTOR. HOWEVER, GOI DID NOT WISH TO MAKE KNOWN ITS POSITION AT THIS STAGE FOR FEAR OF RELAXING PRESSURE ON BUSINESS AND LABOR TO COME UP WITH SATISFACTORY PROPOSALS ON SCALA MOBILE AND OTHER LABOR COST ISSUES. HE WAS OPTIMISTIC THAT SOME AGREEMENT MIGHT BE REACHED TO EXCLUDE EFFECT OF INCREASES IN VALUE ADDED TAX FROM SCALA MOBILE WAGE ADJUSTMENTS. IN RESPONSE TO QUESTION ABOUT IMF POSITION ON LABOR COSTS, PALUMBO SAID THAT FUND WAS NOT INSISTING ON SPECIFIC KIND OF ACTION, PROVIDED THAT RESULT WAS STRONG ENOUGH.VOLPE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 DEC 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME19659
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760446-0508
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761278/aaaacpxz.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by ellisoob>; APPROVED <02 AUG 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TREASURY MINISTRY OFFICIAL COMMENTS ON STABILIZATION PROGRAM
TAGS: EFIN, IT
To: STATE TRSY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006